

Saidi: Govern Well or Burn in the Arab Firestorm!

Named among the 50 most influential Arabs in the World for two consecutive years, Dr. Nasser Saidi is no talking head, not a coiffed and powdered sensationalist jumping the revolutionary train for personal publicity. When Saidi calls it The Arab Firestorm - a phrase he coined and actively promotes as a more adequate description of recent regional events, you'd better sit up and listen. As we start what promises to be a pivotal 2012, we asked Dr. Saidi for his sober insights into governance and transparency issues in the region.

On The Challenges Most Pressing Challenges

"The Arab Firestorm has laid bare challenges which urgently need a holistic, political, social and economic response. If this response is not rooted in instilling good corporate governance, it is not likely to be sustainable."

On The Arab Firestorm

"The Arab Firestorm is a wake-up call about governance. The economic growth of the region needs to be inclusive, to ensure the "trickle down" & "pull up" effects. We need to reduce chronically high unemployment which is leading our youth to despair in institutions, markets and feeling increasingly insecure about their future; we need to shift away from a State driven developmental model and accelerate private sector growth to generate productivity growth and economic diversification."

"Above all, we need to strengthen transparency, disclosure and accountability, which have proved to be the highest virtues in governance."

On Reforming and The Board of Directors

"It is imperative that corporate governance reform focus on two key sectors: non-listed companies, mainly family-owned enterprises and small and medium sized enterprises, and state-owned enterprises."

"The corporate governance improvements many companies are making often relate to all levels of the organization except the Board level, which is the most important one. There is a German proverb that companies should apply: **when sweeping stairs, one should start at the top.**"

On The Place of Women

"Women are rarely found sitting on boards in the region – a fact that may be preventing more perspectives and views as well as better financial performance."

On Sustainability, Governance and CSR Indexes

“Of course, a company’s inclusion in [an] Index is not a guarantee that fraud, governance scandals or environmental disasters will not happen. However, it provides an extra layer of assurance for investors.”

On Breaking Through Frontier Market Status

“A reclassification is not a panacea for market ills or underperformance.”

On Shareholders’ Responsibilities

“We need more active shareholders that practice good stewardship of their investments.”

On Regulating the Regulator

“Regulators themselves should look at their own governance arrangements. They must ensure that they themselves are both transparent and accountable, that their responsibilities are well-defined and not conflicted, that they are not subject to political intervention or ‘regulatory capture’ and that they are staffed with competent and experienced personnel.”

Full Interview Text

What’s your outlook for 2012?

The Arab Firestorm has laid bare challenges which urgently need a holistic, political, social and economic response. If this response is not rooted in instilling good corporate governance, it is not likely to be sustainable.

The Arab Firestorm is a wake-up call about governance. The economic growth of the region needs to be inclusive, to ensure the “trickle down” & “pull up” effects. We need to reduce chronically high unemployment which is leading our youth to despair in institutions, markets and feeling increasingly insecure about their future; we need to shift away from a State driven developmental model and accelerate private sector growth to generate productivity growth and economic diversification. We need to address wide income disparities within countries and between countries of the region. Above all, we need to strengthen transparency, disclosure and accountability, which have proved to be the highest virtues in governance.

But the focus of corporate governance reform should extend beyond the realm of listed companies.

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It is imperative that corporate governance reform focus on two key sectors: non-listed companies, mainly family-owned enterprises and small and medium sized enterprises, and state-owned enterprises.

We need corporate governance principles to be adopted by the public sector and by the state-owned enterprises, to provide leadership and a level-playing field. And we are already seeing developments in these two areas in the UAE. Last year, His Highness Sheikh Mohammed bin Rashid Al Maktoum, issued a federal decree establishing a governance framework and unified corporate governance criteria for the boards of federal entities and state owned enterprises. This is a crucial step: the public sector and state-owned enterprises need to lead by example and set the benchmark for the private sector to follow. Similarly, Dubai SME, an Agency of the Department of Economic Development, issued a CG Code (developed by Hawkamah) for SMEs in Dubai.

Later this year, Hawkamah and the OECD will be publishing a Policy Brief which sets out key recommendations on improving corporate governance practices within SOEs with case studies from our region.

You've been quoted as saying that there's a danger of corporate governance becoming 'a box ticking exercise, where the principles and values of good corporate governance are not internalised by the companies and their boards.' What measures do you see being taken to avoid that danger and ensure that this is a meaningful culture change rather than a cosmetic exercise?

The focus needs to be on boards. In many MENA companies, a member of the senior or middle management, such as the chief internal auditor or perhaps a corporate governance officer, has been tasked with drafting a board induction manual or a corporate governance manual and formulating various governance related policies. In most cases, these individuals are often supported by the Board Chairman or sometimes the CEO. However, typically, their mandate does not cover, or they themselves do not feel comfortable, making difficult recommendations that may relate to issues such as the Board composition, competence of directors, or even issues such as defining the role for the Board.

The effect of this is that the focus of these corporate governance improvements is typically on the performance of the senior management or on the introduction of more stringent authority matrixes for the management to follow, and not on important issues such as conflicts of interests, related party transactions, scrutiny arrangements, succession planning or preservation of independence.

In other words, the corporate governance improvements that many companies are making often relate to all levels of the organization except the Board level, which is the most important one. There is a German proverb that companies should apply: when sweeping stairs, one should start at the top.

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For corporate governance to truly take root in the region, it is the Boards that need to internalize corporate governance.

There are two, inter-linked, steps that companies should take, and the regulators should *mandate* this.

Firstly, the regulators should ensure that the directors of companies are not only competent, but also understand corporate governance and its benefits. That is why we established Mudara IOD to offer professional development programs for board directors.

Secondly, boards should be subjected to annual assessments or evaluations. Formalized board evaluations remain an exception rather than a norm and remain largely absent. Board evaluations, if done properly, i.e., the Board sets appropriate objectives against which its performance can be measured, will help Boards not only to assess their own performance, but ultimately also help define their own role and accountability, as well as their own development needs.

Additionally, the issue of diversity needs to be addressed. GCC boards remain extremely homogenous. This is despite a growing recognition of the value of bringing in international expertise and diversity. In addition to a need for more international perspectives in the board room, women are rarely found sitting on boards in the region – a fact that may be preventing more perspectives and views as well as better financial performance.

Where do you see best practice being applied in the region, either at market or company level?

In terms of markets: Corporate governance improvements in the region have often been prompted by the regulators. Oman was the first GCC country to issue a corporate governance code in 2002 and Hawkamah studies have in the past identified Oman as the leader in disclosure practices. However, the regulators in Saudi Arabia, Qatar, UAE and Bahrain have taken significant steps in corporate governance in the past couple of years and the situation is no longer so clear cut.

What is also positive is that companies themselves, irrespective of which county they reside in, have started to see the value of better corporate governance. There are many ways of ranking corporate governance practices, but a good indication of the better governed companies is their inclusion in the S&P-Hawkamah Pan Arab ESG Index, which ranks and tracks the performance, transparency and disclosure of regional companies on Environmental, Social and Corporate Governance issues.

S&P-Hawkamah Pan Arab ESG Index includes the top 50 MENA companies based on their performance on nearly 200 ESG metrics, when compared to their regional peers. The constituents of the Index are drawn from a universe of the 150 largest and most liquid companies listed on the national stock exchanges of 11 markets: Bahrain, Egypt, Jordan, Lebanon, Kuwait, Morocco, Oman, Qatar, Kingdom of

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Saudi Arabia, Tunisia and the United Arab Emirates. The Index ranks MENA companies on some 200 ESG criteria including carbon emissions, water and energy consumption, employee health and safety, community investment, charitable giving, financial reporting and auditing, Board independence and executive remuneration.

Of course, a company's inclusion in the Index is not a guarantee that fraud, governance scandals or environmental disasters will not happen. However, it provides an extra layer of assurance for investors.

The top 10 companies in the index are: du (or Emirates Integrated Telecommunications Company), DP World Ltd, SAVOLA Group, Arab Bank, MobiNil, National Bank of Abu Dhabi, Orascom Construction Industries, Qatar Telecom, Maroc Telecom and Al Khalij Commercial Bank.

Some commentators have remarked on regional markets' failure to achieve emerging market status as a good thing: it gives us time to develop the systems and practices still lacking in the region. Do you also see this as an opportunity? Which of the region's markets do you feel is closest to making that move? In the meantime, how should others be preparing for that event to make it as smooth and rewarding a transition as possible?

A reclassification is not a panacea for market ills or underperformance. Typically, reclassification (both upgrades and downgrades) have followed or been accompanied by economic and financial policy reforms, including improvements in market infrastructure. It is these more fundamental and structural reforms that attract and retain international investors and boost the confidence of domestic investors. Reclassifications are best viewed as signaling a confirmation of policy reforms and changes in market conditions. Having said that, the reviews by rating agencies and index makers like MSCI and S&P suggest that the UAE and Qatar are most likely to graduate from "Frontier" to "Emerging Market" status based on market infrastructure reforms (DVP for example) and granting greater access to foreign investors.

Although regional market regulation regarding transparency, disclosure and reporting practices is still very basic, we often see companies failing to comply with even the minimum requirements set and being penalized for it. How can market authorities positively encourage good disclosure practice among their listed companies?

The regulatory authorities are one side of the coin. I have already mentioned the need for the regulators to ensure that board directors of companies are qualified and accredited. They also need to require that companies adopt and comply with IFRS, international accounting standards and best practices, with reporting on a timely basis. Regulators should also request that companies report on corporate governance practices in their annual and other regular reports I would also encourage capital market authorities to establish CG compliance units, demonstrating the willingness of regulators to deploy resources to ensure good CG compliance.

The region's investors should also play a more active and engaged role. Regional asset managers such as the sovereign wealth funds have not exhibited governance vigor in their investment processes or in monitoring their investments. A strong case can be made that regional investors, particularly the sovereign wealth funds, private equity and banks as lenders, should be more active to drive corporate governance reform within the companies they invest in and lend to. We need more active shareholders that practice good stewardship of their investments.

Much of the market movement – especially in the GCC, is driven by rumour and speculation. With so many of the region's businesses heavily affected by various government policies and decisions, investors with relationships with government insiders will always be at an unfair advantage.

Rumors and speculation persist when there is a lack of transparency and timely disclosure. The regulators should ensure better disclosure practices by the companies, but equally regulators themselves should look at their own governance arrangements. They must ensure that they themselves are both transparent and accountable, that their responsibilities are well-defined and not conflicted, that they are not subject to political intervention or 'regulatory capture' and that they are staffed with competent and experienced personnel.

Market perceptions, including economic fundamentals, determine where global capital will flow. Capital will flow to where it is best protected by laws, institutions and practice. Global capital flows will generally avoid markets where investor protection is perceived as weak, uncertain or untested. The MENA markets stand to gain by adopting institutions and corporate governance frameworks that bolster investor trust through improved disclosure and transparency standards and rule of law but that also punish insider dealing and effectively deal with conflicts of interest and related party transactions.

What's the progress on Hawkamah's media programme? How do you feel the media is maturing with the markets?

The media is showing increasing interest in corporate governance, and are closely monitoring the developments in corporate governance. We have seen quality editorials focusing on governance issues and increasingly TV and other media monitor and report on governance issues. To support the region's journalists and ensure that they have the tools to analyze companies on the governance arrangements, Hawkamah runs an annual program for economic journalists, and continuously engages them in our annual conferences and various events.